

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: May 5, 2022**

REGULAR **CONSENT** **EFFECTIVE DATE** September 14, 2020

DATE: April 22, 2022

TO: Public Utility Commission

FROM: Curtis Dlouhy

THROUGH: Bryan Conway, Marc Hellman, and Matt Muldoon **SIGNED**

SUBJECT: PACIFIC POWER:
(Docket No. UM 2116)
Requests authorization to defer expenses associated with 2020 wildfire damage restoration.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Pacific Power's (PacifiCorp, PAC, or Company) application to defer costs associated with damage restoration from the 2020 Labor Day wildfires, to be netted with deferred revenue requirement amounts associated with plant no longer used and useful, for the 12-month period starting September 14, 2020.

Staff further recommends that the Commission approve a regulatory asset for PacifiCorp's undepreciated investment in plant no longer used and useful due to wildfire damage or destruction.

DISCUSSION:

Issue

Whether the Commission should approve PacifiCorp's deferral application filing relating to costs associated with the 2020 Labor Day wildfires for the 12-month period beginning September 14, 2020, to be netted with deferred revenue requirement amounts associated with plant no longer used and useful.¹

¹ Plant no longer used and useful does not include plant capable of providing service but temporarily disconnected due to wildfires.

Whether the Commission should approve a regulatory asset for PacifiCorp's undepreciated investment in plant no longer used and useful due to wildfire damage or destruction.

Applicable Rule

PacifiCorp makes this filing in accordance with ORS 757.259 and OAR 860-027-0300.

ORS 757.259 authorizes the Commission to allow a utility to defer, for later recovery in rates, expenses or revenues in order to minimize frequency of rate changes or to match appropriately the costs borne by and benefits received by customers.

Under ORS 757.295(6), unless subject to an automatic adjustment clause under ORS 757.210(1), amounts deferred under ORS 757.259(5) and OAR 860-027-0300 are allowed in rates only to the extent authorized by the Commission in a proceeding under ORS 757.210 to change rates and upon a prudence review and review of the utility's earnings. With some exceptions, a company's amortization of amounts deferred under ORS 757.295(5) cannot exceed an amount equal to three percent of the company's gross revenues from the preceding year.

OAR 860-027-0300 sets forth several requirements for an application to defer.

Analysis

Background

PacifiCorp filed this deferral request on September 14, 2020, in the midst of the unprecedented wildfires that began on Labor Day weekend and continued to plague Oregon in the following weeks (hereinafter referred to as "Labor Day wildfires" or "wildfires"). The wildfires burned over a million acres in Oregon, including land in PacifiCorp's territory, resulting in significant and in some cases devastating damage. PacifiCorp seeks to defer incremental costs associated with restoring its service to its customers and restoring utility facilities damaged by the wildfires.²

In its supplemental filing, PacifiCorp provides a high-level summary table of the restoration activities that it has completed to date.³ The table is reproduced in Table 1 on page 4 of this memo. In PacifiCorp's supplemental filing, the Company estimates

² PacifiCorp's Application for Authorization to Defer Costs and Lost Revenues Associated with the Wildfire Emergency, Page 3.

³ PacifiCorp's Supplemental Application for Deferred Accounting Related to Wildfire Damage and Restoration Costs filed on October 4, 2021, Page 3.

that it spent approximately \$185 million in incremental costs in the 12-month period beginning on September 14, 2020, and anticipates that it will spend another \$11 million to fully restore service to customers and repair, replace, and restore damaged utility facilities.⁴ The Company anticipates that it will finish the rest of its restoration work in the 2023 calendar year.

In this memo, Staff recommend approving this deferral for the 12-month periods beginning on September 14, 2020. Staff notes that it recommends approval of the Company's supplemental application in a separate memo at this same public meeting. The circumstances warranting a separate staff report will be discussed in the other memo.

PacifiCorp states in its initial filing that it anticipated damage to more than 600 poles, hundreds of cross arms, dozens of transformers, and more than 20 miles of conductors. In follow up conversations with the Company, PacifiCorp stated that it expects the restoration work to continue into 2023 and has echoed this in its communications with Staff on various other dockets.

⁴ *Id.*, at Pages 4-5.

Table 1: Restoration Activity Summary

District	WF Rebuild Project	Benefits
Medford	Almeda	Restore services to customers in Talent, Phoenix, Ashland and Medford and address distribution tree removal.
Medford	S. Obenchain	Restore transmission on Line 19 for Prospect Hydro, and to customers in Shady Cove and Butte Falls. Address transmission rights of way vegetation and distribution tree removal.
Lincoln City	Echo Mountain	Restore transmission redundancy on Van Duzer lines, address vegetation management along transmission right of way and restore customers in Otis and Neotsu and address distribution tree removal.
Roseburg	Archie Creek	Restore Line 46 and Line 39 transmission in support of Umpqua hydro projects, address long-term vegetation management and tree removal for both rebuild and future asset protection, procure pre-wrapped Genics fire wrapped poles for Line 39, access management and erosion control for improved access.
Stayton	Beachie Creek	Restore customers on the distribution system in Mehama, Mill City, Gates, and Lyons. Address vegetation removal in support of rebuild efforts.
Grants Pass	Slater (Oregon)	Restore transmission on Line 33 in Oregon. Restore distribution service to customers in Takelma and O'Brien.
Klamath Falls	Two Four Two Fire	Restore distribution service to customers in Chiloquin and address vegetation along both distribution and transmission right of way.

PacifiCorp proposes to record deferred amounts by debiting a regulatory asset account and crediting relevant operations and maintenance expense accounts. If approved, the deferral will be credited to Operating Revenues.⁵

Staff position

Staff believes it is reasonable to conclude that the devastating wildfires that burned through PacifiCorp's territory were not foreseeable as happening in the normal course of events or likely to have been capable of forecast.⁶ Based on discussions with PacifiCorp and the scale of the restoration costs, Staff believes that the amounts are material. Furthermore, Staff believes a deferral would allow PacifiCorp to align customer costs and benefits. However, due to the unprecedented nature of this event,

⁵ PacifiCorp's Application for Deferred Accounting Related to Wildfire Damage and Restoration Costs, Page 3-4.

⁶ See *In the Matter of the Public Utility Commission Staff Request to Open an Investigation Related to Deferred Accounting* (UM 1147), Order No. 05-1070 (October 5, 2005) (setting forth guidelines for use of deferred accounts).

it is appropriate to use an alternative method to track the interim retirements of plant that have and will occur associated with assets damaged or destroyed during this event. This alternative method of tracking costs and Staff's overall recommendation to approve this deferral are consistent with the treatment approved by the Commission for Portland General Electric in its deferral related to the Labor Day wildfires in Docket No. UM 2115.⁷

The deferral in this case should track both the cost of new plant used to replace damaged or destroyed existing plant, as well as the revenue requirement effects of damaged plant being removed from rate base. These two amounts will be netted against each other to ensure that customers are not paying both for new plant and damaged, removed plant at the full Commission-authorized return. In order to ensure that PacifiCorp receives recovery of its investment in the removed plant, a regulatory asset should be authorized that includes the undepreciated balance of removed plant. Amortization of this regulatory asset will be determined at a future date, as well as the appropriate return on the unamortized balances. Staff and PacifiCorp agree that a shorter amortization period for the regulatory asset should be used, with interest over that time at the modified blended treasury (MBT) rate. It is Staff's hope that parties will continue to collaborate, taking into account these factors, to bring a joint proposal to the Commission when amortization is being considered. The plant removed from service consists mainly of a number of poles, cross arms, and conductors damaged or destroyed during the Labor Day fires.

Finally, Staff notes that separating plant no longer used and useful is a departure from typical interim retirements in a depreciation docket and are for this deferral application. These departures should not be considered precedential for replacement events that occur in the normal course of utility operations. Staff notes while this is not the typical method to handle early retirements, the Commission has approved this.

Staff would like to reiterate that allowing this deferral is not equivalent to approving any or all costs associated with the 2020 Labor Day wildfires. Instead, it allows the Company to establish an account to keep track of actual costs in a separate wildfire deferral account, and allows the Company to track the off-setting revenue requirement effect of plant no longer used and useful so that customers are not paying twice for plant – once for replaced plant and continued payment for damaged plant embedded in base rates. Inclusion of particular costs would come later, during a prudence review, before the amounts are amortized into customer rates.

⁷ See Commission Order Nos. 20-389 and 22-077.

Finally, Staff would like to reiterate that the recommendations put forth in this memo are consistent with the recommendations approved for Portland General Electric's deferral related to its Labor Day wildfires deferral in Docket No. UM 2115.⁸

Conclusion

Based on the nature of the event and materiality of the costs associated with the 2020 Labor Day wildfires, Staff concludes the discretionary criteria for an application to defer are satisfied. Further, a deferral would align customer costs and benefits, which satisfies the statutory criteria for approval of an application to defer. Therefore, Staff recommends that the Commission approve PacifiCorp's request for deferred accounting for the costs associated with the 2020 Labor Day wildfires recovery for the 12-month periods beginning September 14, 2020. The Company has reviewed this memo and agrees with its content.

PROPOSED COMMISSION MOTION:

Approve PacifiCorp's applications to defer costs associated with damage restoration from the 2020 Labor Day wildfires, to be netted with deferred revenue requirement amounts associated with plant no longer used and useful for the 12-month period starting September 14, 2020.

Approve a regulatory asset for PacifiCorp's undepreciated investment in plant no longer used and useful due to wildfire damage or destruction.

⁸ See Commission Order Nos. 20-389 and 22-077.